Annual Report

For Year Ending

December 31, 1999

Alberta
AUTOMOBILE
INSURANCE BOARD

Alberta
AUTOMOBILE INSURANCE
BOARD

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The Honourable Stockwell Day
Provincial Treasurer
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Honourable Sir:

Pursuant to R.S.A. 1980, Chapter 1-5, the Insurance Act, Section 344(2), we respectfully submit herewith, the twenty-eighth report of the Alberta Automobile Insurance Board, for the year ending December 31, 1999.

J.M. Tweddle, Chairman

P.G. Galway

P.J. Hryniw

W.H. Gough

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ALBERTA AUTOMOBILE INSURANCE BOARD

1999 ANNUAL REPORT

The Alberta Automobile Insurance Board, constituted under subsection 338(1) of the Insurance Act, is empowered under section 339 thereof to investigate any matters it thinks fit respecting automobile insurance in Alberta, and to approve rates charged by insurers for compulsory automobile coverage under the Motor Vehicle Administration Act.

RATES

Insurers conducting business in Alberta are required by the Insurance Act to report their experience to a Canadian statistical plan. The results are compiled annually in Insurance Information Centre of Canada published statistical exhibits that are then analyzed by the Board's actuarial consultant. The most recent available results are for 1998. These analyses are used in weighted proportions with the insurers' own statistics and analyses performed by insurance underwriting groups in considering proposals for rate changes.

There is a consistent pattern of deteriorating results that has been evident since the mid 80s, particularly for Private Passenger vehicles. The phenomenon is attributable to the growth in compensation for bodily injury claims under third party liability and, more recently, accident benefits coverage. Premiums have risen steadily through the 90s in response to rising claim costs, though competition has tempered the process.

MARKET

Premiums for third party liability and accident benefits on Private Passenger vehicles continue to increase in response to claims experience, though there is some recent abatement in the premium spiral. In contrast, collision and comprehensive coverage have yielded satisfactory results in recent years. This development has in part offset the adverse results for third party liability and accident benefits.

Third party liability encompasses bodily injury and property damage. The area of concern is the persistent spiral in both average cost and frequency of bodily injury claims. It takes a number of five years for third party liability bodily injury claims incurred in a given year to mature. Therefore, results for recent years are projected to their expected ultimate values based on historical observations of the maturation of claims. Expectations are that over the five years ending in 1998, the average compensation for a bodily injury claim will have increased 21% and frequency of this type of claim will have risen 28 percent. The climb in settlement amounts and frequency combines for a 55% increase in the claim cost per vehicle insured. In contrast, the average property damage claim will have increased by 39% while frequency of this type of claim will have actually fallen by 14 percent. For property damage, the claim cost per vehicle insured will have increased by 20 percent.

The overall effect for third party liability coverage is a 48% growth in the average claim size while frequency will have declined 6 percent. The claim cost per vehicle insured will have increased by 40 percent. Bodily injury is expected to comprise 80% of total third party liability claim costs for 1998 compared to 77% for 1993.

Rising average claim costs and frequency have affected accident benefits in recent years. In the five years ending in 1998, the average claim cost will have increased by 49% and frequency of this type of claim will have risen by 44 percent. The claim cost per vehicle insured will have risen 115 percent. Compensation available under accident benefits coverage doubled for losses occurring as of October 1, 1995, contributing to increased average claim costs since 1996. There is a partial offset as the compensation is deducted from any third party liability claim.

Consistent with third party liability property damage claims, frequency for collision and comprehensive claims has diminished in recent years. Over the same five year period, the average claim cost for collision will have increased by 28% while frequency will have fallen 18 percent. The claim cost per vehicle insured will have increased by 5 percent. The average claim cost for comprehensive will have increased by 53% while frequency will have fallen 59 percent. The claim cost per vehicle insured will have dropped 37 percent. Higher deductibles do not entirely explain the magnitude of the drop in frequency for collision claims; it has been noted that frequency has also declined for third party liability property damage claims where deductibles do not play a role. Higher deductibles and resulting fewer small claims may play more of a role with comprehensive, where the drop in frequency is more pronounced. Recent results have not been as greatly affected by weather related catastrophes as some prior years.

The standard market's criteria for acceptable risks respond to results. As results improve, the criteria relax and more drivers gain access to the standard market. Criteria become more stringent as results deteriorate.

Drivers with no recent losses or convictions enjoy ready access to the standard market. The industry continues to compete for those drivers with a clear record for the past six or more years. Access to markets is more limited for drivers with some recent frequency of claims and convictions. These drivers are channelled into residual or non standard markets, at higher premiums. However, the advent of new markets over the past two years has generated more choice and more competitive pricing for these drivers.

Continued consolidation of the industry through mergers and acquisitions eliminated some traditional markets. However, there have been no apparent adverse affects on choice of market and competition. Two new insurers entered the Alberta market in 1999. Two existing insurers broadened their scope of activity through either the existing company or a subsidiary.

The Facility Association is the industry's mechanism for providing insurance to those consumers who are refused coverage elsewhere. The Board monitors the Association's program for all coverage. Their share of the Private Passenger market peaked at 6.5% for 1992. Market share dropped to 6.0% for 1993 and continued its decline to 1.6% for 1998. The decline appears to have continued through 1999, because of heightened interest in the non standard market.

INQUIRIES

Inquiries and complaints are monitored for unfair and inequitable rules and practices. Complaints are assessed for compliance with rates and rules, and are resolved through representation to the insurer or provision of a detailed explanation. The Board office received 285 inquiries in 1999.

BENEFITS

The current compulsory Third Party Liability limit of $200,000 places Alberta at a level at least equal to any other Canadian jurisdiction. However, the Board recognizes the critical importance of adequate limits and continues to maintain its recommendation of a compulsory limit of at least $300,000 that would involve an increase of approximately 9% to the premium.

MEETINGS

In 1999, the Board held 9 meetings during which 123 applications were examined. This number compares with 128 applications in 1998, 125 in 1997, 111 in 1996, 130 in 1995 and 94 in 1994. Six applications were declined, of which two were subsequently revised and approved. Thirty-three of the applications were approved subject to modifications.

LIAISON

Representatives of the Automobile Insurance Board met with the executive members of the following industry associations during 1999 in order to maintain dialogue with the industry's various component groups:

Insurance Council of Canada
Facility Association

and also attended:

Canadian Insurance Congress

STAFF

Susan Steeves, B.A., F.I.I.C., is Administrator to the Board.

MEMBERSHIP ON THE BOARD

There were no changes during 1999.

GENERAL

Traffic Safety

A recurring issue in this report is the concern with the rising costs associated with injuries and fatalities. Clearly, a reduction in the number and severity of injuries would have a beneficial effect on costs. The Board strongly supports traffic safety initiatives. The subject figured in a 1991 report dealing with pressures on premium as well as in previous annual reports.

The Board is gratified with the growing emphasis on traffic safety programs. The Government's "Think and Drive" program brings the traffic safety issue into the public forum. "Mission Possible" is another significant endeavor sponsored by a coalition of insurers and other partners, including government, with a vested interest in traffic safety. One of Mission Possible's undertakings for 1999 was to communicate the benefits of graduated licensing.

Premium Stability

Injury claims remain the root cause of the escalation in third party liability premiums. A 1991 Board study found that the growth in bodily injury settlements was mainly responsible for the dramatic rise in third party liability claim costs that had emerged as a pattern since

1985. The section on Market details similar more recent history. Developments are consistent with the Board's earlier conclusion that there is nothing operating in the current compensation system to control bodily injury claim costs.

The Board continues to support the recommendations of the Alberta Law Reform Institute's proposal to amend Sections 5 and 6 of the Survival of Actions Act to provide that a right of action would not survive the death of an injured person to claim for the loss of future earnings. The Board also supports other efforts toward tort reform that would serve to temper claim costs.

The insurance industry, like other business sectors, underwent yet another year of consolidation through mergers and acquisitions. That phenomenon has been countered to some degree with new entrants to the Alberta market. Despite adverse results, particularly for third party liability, the market remains competitive for drivers with acceptable driving records and has further improved for what has been an under serviced non standard market.